

Message Text

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PAGE 01 THE HA 06635 011608Z

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ACTION EUR-12

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PA-01 AID-05 CIEP-01 SS-15 STR-04 ITC-01 TRSE-00

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SUBJ: EUROPEAN COUNCIL NOV 29-30: ECONOMIC AND MONETARY
SITUATION

REF: A) EC BRUSSELS 11607; B) THE HAGUE 6606

1. SUMMARY: THE EUROPEAN COUNCILS DISCUSSION OF THE ECONOMIC
AND MONETARY SITUATION WAS BASED UPON A SOMBER REPORT FROM
THE EC COMMISSION. THE EC HEADS OF GOVERNMENT AGREED ON THE
NECESSITY OF COMMUNITY ACTION TO DEAL WITH THE CURRENT CRISIS.
END SUMMARY.

2. ECONOMIC AND MONETARY SITUATION: THE HEADS OF GOVERNMENT
RECEIVED AND DISCUSSED A COMMUNICATION FROM THE EC COMMISSION
ON THE ECONOMIC SITUATION IN THE COMMUNITY. THE REPORT NOTES
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PAGE 02 THE HA 06635 011608Z

THAT THERE HAS BEEN NO FURTHER IMPROVEMENT IN THE ECONOMIC

SITUATION IN MOST OF THE EC MEMBER STATES DURING THE LAST FEW MONTHS, STRESSING THE SLACK INCREASE IN CONSUMER DEMAND, THE WEAKNESS OF INVESTMENT DEMAND, THE LEVELLING OFF OF INDUSTRIAL PRODUCTION, DETERIORATION OF THE BALANCE OF PAYMENTS DEFICIT, RENEWED ACCELERATION OF INFLATION RATES, AND ONLY A SLIGHT DROP IN CYCLICAL UNEMPLOYMENT. IT NOTES FURTHER THAT THE SLOWDOWN IN RECOVERY HAS AFFECTED ALMOST ALL INDUSTRIAL COUNTRIES AND HAS LED TO DECELERATED GROWTH OF WORLD TRADE VOLUME. THE REPORT WARNS THAT AN OIL PRICE RISE WOULD CAUSE FURTHER DETERIORATION IN THE WORLD ECONOMIC SITUATION AND SERIOUSLY ENDANGER RECOVERY. IT NOTES THE GROWING BELIEF AMONG EC MEMBER STATES THAT ONLY A GREATER AND MORE UNIFORM DEGREE OF PRICE STABILITY CAN ENSURE SUSTAINED GROWTH, REDUCED UNEMPLOYMENT AND MORE STABLE INTERNATIONAL MONETARY RELATIONS.

3. THE REPORT CALLS FOR GREATER SOLIDARITY AMONG THE MEMBER STATES AS THE ONLY HOPE FOR COUNTERING CURRENT TENDENCIES TOWARD DIVERGENCES IN PRICES, COSTS, AND BALANCES OF PAYMENTS, NOTING THAT EXCHANGE RATE FLUCTUATIONS ARE ONCE AGAIN MAKING IT MORE DIFFICULT FOR SOME MEMBER STATES THAN FOR OTHERS TO CONTAIN INFLATION.

4. THE REPORT ASSERTS THAT THE 1977 ECONOMIC OBJECTIVES APPROVED NOV 22 BY THE EC FINANCE COUNCIL WILL BE ATTAINABLE ONLY IF WORLD TRADE CONTINUES TO EXPAND, WITHOUT PROTECTIONIST MEASURES; IF ECONOMIC POLICIES ARE COORDINATED AT THE EC AND INTERNATIONAL LEVELS; IF WAGE AGREEMENTS STAY WITHIN THE BOUNDS OF THE POSSIBLE; AND IF THERE IS NO INCREASE OR ONLY A MODERATE INCREASE IN OIL PRICES.

5. THE REPORT CONCLUDES THAT SHORT TERM ECONOMIC POLICIES SHOULD CONTINUE TO BE DIFFERENTIATED ACCORDING TO INDIVIDUAL MEMBER STATE SITUATIONS. THE REPORT SUGGESTS THAT THE DEFICIT COUNTRIES SHOULD AIM TO REDUCE BALANCE OF PAYMENTS DEFICITS AND INFLATION RATES AND TO CUT THE SPIRAL OF EXCHANGE RATE DETERIORATION THROUGH ACTION IN THE MONETARY, FISCAL AND INCOMES SECTORS; AND IT CALLS FOR ADOPTION OF REFLECTIONARY POLICIES BY THE SURPLUS COUNTRIES IN ORDER TO STIMULATE DEMAND FOR DEFICIT COUNTRY PRODUCTS.

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PAGE 03 THE HA 06635 011608Z

6. VERY FEW SPECIFIC POINTS MERGED FROM THE DISCUSSION OF THE COMMISSIONS REPORT AND OF THE ECONOMIC AND MONETARY SITUATION IN GENERAL. UK PRIME MINISTER CALLAGHAN TOLD THE PRESS THAT THE TALKS HAD BEEN STRONGER ON ANALYSIS THAN ON ANSWERS BUT STRESSED THE NEED FOR STRONG DESIRE TO WORK TOGETHER TO TACKLE UNEMPLOYMENT AND INFLATION. IN RESPONSE TO QUESTIONS HE SAID THAT HE WOULD BE HAPPY TO SEE THE SUGGESTIONS FOR MONETARY

CONVERGENCE AND EXCHANGE RATE STABILITY PUT FORWARD BY DUTCH
FINMIN DUISENBERG CARRIED OUT BUT THAT HE DID NOT
FEEL THE PROSPECTS FOR THEIR SUCCESS WERE ANY GREATER NOW THAN
IN THE PAST. HE SAID THERE HAD BEEN A GENERAL CONSENSUS AMONG
THE HEADS OF GOVERNMENT THAT A RISE IN OIL PRICES WOULD HAVE
AN UNFAVORABLE IMPACT ON THE ECONOMIES OF THE INDUSTRIALIZED
WORLD BUT THAT THERE HAD NOT BEEN ANY DECISION TO MAKE A
COLLECTIVE REPRESENTATION TO OPEC.

7. AT SEPARATE PRESS CONFERENCES, BELGIAN PRIME
MINISTER TINDERMANS AND DUTCH PRIME MINISTER DEN UYTERLIEDER
ALSO STRESSED THAT THE HEADS OF GOVERNMENT WERE AGREED ON THE NEED FOR FORCEFUL
COMMUNITY ACTION IN THE ECONOMIC AND MONETARY SECTORS TO DEAL
WITH THE CURRENT CRISIS. DEN UYTERLIEDER STRESSED THAT THE FIRST
AGREED PRIORITY WAS ON SOLIDARITY WITHIN THE C, WITH
PARTICULAR ATTENTION TO BE PAID TO THE BRITISH AND ITALIAN
SITUATIONS. IN A RELATED VEIN HE ANNOUNCED THAT THE COM-
MISSION HAS BEEN INSTRUCTED TO PREPARE A STUDY ON MEANS OF
REDUCING ENERGY CONSUMPTION.

8. AVAILABLE INFORMATION ON POSITIONS TAKEN BY THE FRG DURING
THE DISCUSSIONS IS LARGELY SECONDHAND. DANISH PRIME
MINISTER JORGENSEN INFORMED THE PRESS ON MONDAY THAT SCHMIDT HAD WARNED
THE FRG COULD NOT BE EXPECTED TO PLUG DEFICIT GAPS FOR THE
WEAKER COUNTRIES. ACCORDING TO FRENCH PRESS BRIEFINGS, SCHMIDT
ALSO STATED THAT THE FRG WOULD NOT TAKE OUTSIDE INSTRUCTIONS
TO REFLATE ITS ECONOMY. IRISH PRIME MINISTER FITZGERALD TOLD
THE PRESS THAT THE FRG HAD STRESSED DURING THE MEETING
THAT THE SCALE OF SURPLUSES IN SURPLUS COUNTRIES IS NOT VERY
LARGE.
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